GLOBAL LEGAL INSIGHTS

Private Credit 2027

Second Edition

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Brief overview of the private credit market

Jersey and Guernsey are well known to many private credit market participants for their tax-neutral, politically stable and industry-focused advantages. Both Islands boast a long established and sophisticated financial services sector with a highly skilled workforce and strong professional services infrastructure. Their proximity to London, shared language and familiar legal framework has long made them attractive jurisdictions for the establishment of many different types of fund structure, asset holding structure and acquisition structure. As such, it is not surprising that Jersey and Guernsey are both popular jurisdictions for the establishment of private credit funds and more broadly facilitating a wide range of private credit strategies. The Islands' position as sophisticated leading international finance centres translates to a wealth of private credit activity spanning a broad spectrum of the private credit market, including a wide variety of underlying asset classes.

That spectrum encompasses fundraising and fund structuring, deployment of direct and other alternative lending strategies, structured debt issuance, special situations, and beyond. Asset classes underpinning private credit strategies are broad and ever evolving. Real estate and the leveraged and acquisition finance markets remain a staple, but increasingly innovative products are now crossing our shores, such as cryptocurrency and fine wine. Specialty finance is a term that only recently came to the fore but is increasingly common, illustrative of the adaptive nature of private credit and its ability to unlock capital where traditional credit solutions cannot, and the competitive nature of the private credit landscape today. This is no better illustrated than in the fund finance market where alternative lenders have driven innovation to unlock capital, particularly in the net asset value (NAV) finance and asset-based lending sectors.

The Channel Islands are internationally renowned, progressively regulated, enjoy long-standing stability and offer a flexible legal landscape that has kept them consistently at the forefront of private credit since inception. Whilst certain competitor jurisdictions may have become prominent in manager, investor and sponsor minds in recent years, the Channel Islands are as dynamic as ever in recognising the competitive nature of the private credit market and seeking to evolve product offerings accordingly. Jersey Finance's "Vision 2050" is symptomatic of a desire to innovate and remain at the forefront of the offshore market.

Where Guernsey and Jersey are preferred to a European competitor for the establishment of a new private credit fund, it is generally because both Islands offer a faster and more cost-efficient route to market, with certain types of funds capable of being approved within 24–48 hours. Products such as the Guernsey Private Investment Fund (PIF) and the Jersey Private Fund are proving popular for their streamlined launch process and light touch regulation for funds targeting a sophisticated investor base in a limited number of markets.

Investor sentiment has, in some cases, driven credit fund, debt deployment and asset holding structuring to competitor jurisdictions in recent years, particularly in the European Union. That is increasingly being tested by the changing priorities of managers and certain anchor investors. The drivers of that trend appear to be broad but can be attributed to maturing and targeted fundraising strategies (making use of National Private Placement Regimes (NPPRs) in place of broader EU passporting), enhanced scrutiny of fund structuring and administration costs and the all-important focus on maximising returns in what has become a crowded marketplace.

Private credit activity in the Channel Islands includes the launch of direct lending funds domiciled in Jersey targeting European mid-market borrowers, and Guernsey-based structured credit vehicles focused on infrastructure debt. Further, a number of traditional financial institutions utilise the Islands for their significant risk transfer (SRT) programmes and awareness in the US market of the benefits of Channel Islands structures is growing year on year. These examples underscore the Channel Islands' capacity to support complex and scalable private credit strategies.

In terms of credit deployment, the Channel Islands remain preferred jurisdictions for corporate holding stacks, and private credit's appetite for high-quality assets has given rise to significant local activity in the corporate and broader financial services industry, where investment and acquisition activity is often complemented by private credit deployment.

Progressive regulatory developments, an acknowledgment from industry of the competitive offshore and private credit markets, industry innovation, and a wealth of local professional expertise are driving the Channel Islands private credit market forward, and we expect this to continue for many years to come.

Formation and management of private credit vehicles

For private credit sponsors, the Channel Islands provide a broad toolkit: credit funds; holding and acquisition stacks; vehicles for debt deployment; and structured solutions. The range of options, together with commercially minded regulation and rapid access to market, is a significant reason fund sponsors and credit managers continue to use the jurisdictions.

Investment strategies

Channel Islands private credit funds now invest through a varied mix of approaches: senior direct lending; junior and mezzanine financing; distressed and special situations; NAV lending; asset-based lending; infrastructure debt; real estate credit; specialty finance; and structured products. This wider allocation base mirrors the market's move beyond a sole focus on direct lending towards a more developed and multi-dimensional credit investment model.

Numerous private credit funds have been launched under Guernsey's PIF regime and Jersey's Private Fund framework. Sponsors can choose among flexible forms, including limited companies, limited partnerships and protected cell companies, and thereby calibrate investor protection, operational efficiency and tax transparency to the intended strategy and investor base.

Evergreen and semi-liquid structures are becoming more prominent because they allow managers to invest continuously while offering investors defined redemption flexibility. On a global basis, evergreen vehicles account for more than US$500 billion of assets under management and have attracted particular

interest in private credit, where they avoid the constraints associated with fixed investment periods. Hybrid vehicles combining private credit with other asset classes are likewise gaining ground, meeting demand for diversification and long-term capital appreciation.

Key terms

Private credit fund economics are being revisited. Investors are pressing for tiered management fees, higher hurdle rates and catch-up clauses, placing the conventional "two and 20" arrangement under strain. Performance fees are more often linked to several return hurdles, with the aim of keeping manager and investor interests aligned. Although investment periods generally remain three to five years and fund terms seven to 10 years, evergreen products are beginning to unsettle those established timeframes.

Fund documentation is also giving greater attention to recycling, permitting realised capital to be put back to work within agreed limits so that deployment and returns can be optimised. Managing conflicts is more demanding where a manager runs several funds and co-investment vehicles pursuing overlapping strategies. Institutional investors consequently expect clear allocation policies and comprehensive disclosure frameworks.

Fund terms must reconcile private credit's illiquid assets with investors' desire for optionality. Market participants are using periodic redemption windows in semi-liquid structures, continuation vehicles and mechanisms to facilitate secondary trading to bridge that gap. Fund-level leverage remains heavily negotiated, and investors continue to test the proposed leverage ratios, concentration limits and borrowing-base mechanics.

Expansion of retail access

Private credit is steadily moving into the wealth channel. Managers are widening distribution to private wealth and high-net-worth investors, using evergreen and semi-liquid vehicles designed for that audience. Neither Island has placed the marketing or holding of private credit investments for retail investors formally on its regulatory or legislative agenda, but both the Jersey Financial Services Commission (JFSC) and Guernsey Financial Services Commission (GFSC) are receptive to such products. Early dialogue with the applicable regulator remains the sensible course, and both regulators have shown a pragmatic stance. Growth should continue, especially for established managers able to demonstrate strong track records.

Use of leverage

Borrowing is a recurring component of the Channel Islands' private credit activity, both within funds and through back-leverage arrangements. In a back-leverage arrangement, a bank lends against a credit fund or special purpose vehicle (SPV) lending vehicle to obtain exposure to an asset class, rather than lending directly against the underlying asset; that model is now well established. Its use has increased the prevalence of SPV lender vehicles in Channel Islands deals and expanded the scope of local mandates, since back-leverage lenders require advice and reporting in addition to the work for the credit fund that fronts the loan facility.

Comparative advantages

The Channel Islands compare favourably with many onshore jurisdictions and with a number of offshore alternatives: they combine tax neutrality with a broad network of service providers and legal and fiduciary advisers experienced in private credit. The two regulators also work directly with industry participants to improve their fund regimes. That engagement supports the deployment of capital and assists sponsors and borrowers in accessing it.

Managers in Jersey and Guernsey can use the streamlined, low-cost NPPRs to market into Europe without undertaking full compliance with the Alternative Investment Fund Managers Directive[1] (AIFMD). In our experience, uptake is increasing: managers are selecting particular European markets for distribution

instead of adopting a broad approach that would require a fund to be formed in a European jurisdiction and incur the related additional costs. The European Securities and Markets Authority (ESMA)[2] has published analysis supporting this approach, identifying regulatory complexity and cost as continuing barriers to full EU passporting.

Regulatory developments

The JFSC has acted on feedback from industry to enhance the Jersey Private Fund regime, removing the prior 50 offer/investor limit, expanding applicable professional investor categories, introducing listing permissions and streamlining the approval process to make a 24-hour turnaround possible. These enhancements, which took effect in August 2025, have been well received by the market, with over 800 funds now authorised under the regime.

Guernsey's PIF regime was significantly overhauled in May 2025 with the introduction of the Private Investment Fund Rules and Guidance, 2025. The update merged the prior routes into a single Qualifying PIF structure alongside a dedicated Family PIF, introduced new categories of eligible investors, removed the requirement to appoint an auditor and removed certain other regulatory requirements. There is no limit on the number of investors in a Guernsey PIF and no limit on the number of offerees (albeit marketing must be targeted according to the type of PIF and it cannot be marketed to the general public). There is no requirement for a Guernsey manager and PIFs can avail themselves of one-business-day fast-track registration with the GFSC.

Both Jersey Private Funds and Guernsey PIFs can be listed (in practice, this is likely to be availed of where a technical listing is desired for favourable tax treatment). The International Stock Exchange (TISE) is often a preferred exchange for such listing and is also headquartered in Guernsey.

In August 2024, the JFSC published guidance notes on the tokenisation of real-world assets, which gives Jersey a regulator-approved tokenisation regime. This provides significant benefits to technology-focused originators and arrangers, as well as advocates of decentralised finance, by establishing a regulatory framework for best-in-class practice and regulatory certainty compared to other jurisdictions, which may not prohibit tokenisation but may not yet have found time on their legislative agendas or resource from their regulators to impose such a regime. This is already meeting head on with private credit, which is a burgeoning asset class in the tokenisation market. There are now a number of significant Jersey private and public tokenisation programmes and enquiry levels suggest we are at the beginning of a material growth phase.

Both Channel Islands' most recent MONEYVAL assessments produced strong results. Jersey's report, published in July 2024, found Jersey's effectiveness in preventing financial crime to be among the highest of any jurisdiction evaluated, achieving a rare "high effectiveness" rating held by only three jurisdictions globally. Guernsey's report, published in February 2025, was equally positive, with Guernsey rated compliant or largely compliant in all 40 Financial Action Task Force Recommendation categories and one of only three jurisdictions worldwide to achieve a high effectiveness rating for sanctions implementation. These results evidence the Channel Islands' commitment to meeting, and in many cases exceeding, global standards whilst balancing that commitment against putting industry first.

Further evidence of a commitment to global standards is found in the recent implementation of the Organisation for Economic Co-operation and Development's global minimum tax rate of 15%, known as "Pillar 2", across both Islands. If nothing else, this illustrates the Channel Islands' desire to remain at the forefront of global tax, and its regulatory and legal standards, whilst adopting Pillar 2 in a manner cognisant of retaining global competitiveness.

Guernsey has also demonstrated its commitment to aligning with global sustainability standards. The GFSC published anti-greenwashing guidance in late 2025, clarifying existing obligations under the Minimum Criteria for Licensing, with the guidance coming into force on 1 February 2026. In addition,

the GFSC updated the Finance Sector Code of Corporate Governance to reflect ESG-related expectations. These measures position Guernsey at the forefront of sustainable finance regulation amongst offshore jurisdictions.

Jersey has taken a significant step in modernising its regulatory framework with the Control of Borrowing (Jersey) Amendment Order 2026, which came into force on 13 April 2026. The reforms materially narrow the circumstances in which regulatory consents from the JFSC are required, removing consent requirements for non-Jersey entities (other than investment funds) raising capital or being registered in Jersey, for non-fund unit trusts, and for a range of prospectus circulation activities. These changes, which form the first phase of a broader programme, represent a welcome simplification of Jersey's regulatory framework ahead of the anticipated abolition of the control of borrowing regime in 2027. The equivalent Guernsey regime was abolished in 2013.

The "retailisation" of private credit continues to gain momentum globally, albeit there have been headwinds over the past 12 months, and whilst the marketing and holding of private credit investments to retail is not yet formally on the regulatory or legislative agenda in either Island, both the JFSC and GFSC are engaging constructively with industry on this topic. Engagement with the relevant regulator at an early stage is preferred, with both the JFSC and GFSC generally taking a pragmatic approach. We expect to see growth in this area, particularly for established managers with strong track records, as the Channel Islands' proportionate regulatory framework positions them well to accommodate such products as the market develops.

Taxation and structuring

Tax neutrality continues to be a central structuring advantage for private credit transactions in the Channel Islands.

Entity type and jurisdiction

Company law in Jersey and Guernsey gives sponsors considerable flexibility. Companies have separate legal personality, are not subject to minimum capital requirements, may denominate share capital in any currency, can issue shares in multiple classes and on a redeemable basis, and may make distributions on the basis of a solvency statement. The vehicle choices in both Islands include private and public companies, cell companies, limited liability companies (in Jersey), limited partnerships, limited liability partnerships and trusts. In 2027, Guernsey will add cellular limited partnerships to its list of vehicle choices. Their long-established trust laws also support off-balance-sheet, bankruptcy-remote and limited-recourse structures, including orphaned SPVs where required.

Effectively connected income (ECI) considerations

Non-US investors using private credit funds to pursue US opportunities can use Channel Islands structures to reduce the risk of ECI. If appropriately designed, a Jersey or Guernsey vehicle separates the investor from the underlying US credit asset and helps avoid treatment of the investor as engaged in a US trade or business.

Unrelated business taxable income (UBTI) considerations

Channel Islands blocker structures can help US tax-exempt investors address UBTI. Leveraged investments may produce debt-financed income that is treated as UBTI; inserting a Channel Islands corporate vehicle generally contains that UBTI at the corporate level.

Blocker structures

A Channel Islands blocker corporation may be used to manage ECI for non-US investors, prevent UBTI from flowing through to US tax-exempt investors and accommodate investors from multiple jurisdictions.

Because the Islands are tax neutral, the structure does not introduce an additional Channel Islands tax layer and therefore preserves investors' economic returns.

Treaty availability and listing

Neither Jersey nor Guernsey have a wide double taxation treaty network, but targeted agreements and exemptions can nevertheless assist private credit structures. Where a UK entity owes the debt, the "Quoted Eurobond Exemption" allows interest to be paid without withholding tax if the relevant instruments are listed on a qualifying exchange. TISE, which is headquartered in Guernsey, is commonly selected for these listings.

Season and sell structures

Channel Islands vehicles can accommodate season-and-sell arrangements, in which a credit originator or aggregator retains loans for a specified period before transferring them to third-party investors. Flexible structures and quick formation times are particularly useful for origination platforms that need to deploy capital rapidly and distribute credit assets afterwards.

Private credit transactions

Private credit transactions in Guernsey and Jersey encompass a wide range of deal types, including fund establishment, senior direct lending, junior and mezzanine financing, distressed and special situations, specialty finance, and structured products. Whilst direct lending remains the cornerstone of the asset class, with lenders providing bespoke financing solutions to mid-market borrowers across a variety of sectors, innovation particularly with the use of structured finance techniques has continued to drive transaction volumes in recent years.

Trends in transactions include execution speed, with private credit lenders often flexible and more readily able to deliver urgent and bespoke financing solutions. Increased use of back leverage is also driving transaction volumes with additional capital available from traditional lenders to support private credit, which in some cases is leading to additional diligence and pre-emptive enforcement strategising. Although historically we have often been one step removed from term sheet and covenant package negotiations, there is a trend towards earlier engagement with Channel Islands counsel to ensure legal, regulatory, and tax structuring is thorough and properly adapted to the transaction at hand.

As local counsel, we often play a key role in cross-border deals, advising on enforceability, regulatory compliance, and jurisdiction-specific risks. With an increasingly diverse array of private credit market participants, especially in the direct and alternative lending space, additional focus has been placed on lender education and diligence to assess credit risk.

The year ahead

Beyond the regulatory and market developments noted above, we do not anticipate any material changes in policy or legislation of direct consequence to the private credit industry in the next 12 months. What is clear, however, is the overriding awareness in the Channel Islands that they must not only remain relevant in the offshore market but need to innovate and stand out, such that the Channel Islands can offer market participants attractive structuring, transactional and administrative solutions, from fund establishment through deployment and return on investment.

We therefore expect industry, with the support of regulators, to continue to embrace private credit opportunities through progressive and proportionate market oversight. The August 2024 Jersey tokenisation guidance, the 2025 amendments to the Jersey Private Fund and Guernsey PIF regimes, and ongoing dialogue between industry, the JFSC and the GFSC about retail investor interest in private credit

substantiate this. Proposed changes to the Jersey control of borrowing regime are further evidence of a desire to modernise legal and regulatory frameworks where appropriate to do so.

Looking further ahead, managers are increasingly exploring hybrid fund and financing structures that lend themselves to private credit solutions over traditional capital sources. This trend plays to the structuring flexibility both Guernsey and Jersey have to offer.

Technology-driven innovation, including the application of distributed ledger technology to credit origination and servicing, is expected to accelerate. Jersey, having established a regulator-approved tokenisation framework, is particularly well positioned to capture first-mover advantage in this space. The broader adoption of technology across fund administration, investor reporting, and compliance processes is also expected to enhance the operational attractiveness of Channel Islands structures.

In addition, as private credit markets continue to evolve and mature, particularly in Europe, the Channel Islands remain compelling on a comparative cost and speed to market basis, which we expect managers, direct lenders, advisors and sponsors to become increasingly aware of, not least in the US. With regulatory capital requirements continuing to constrain traditional lenders, back leverage firmly established as a lending strategy, and structured product solutions continuing to grow, the Channel Islands are well positioned to benefit from these structural tailwinds.

On the product front, we expect private credit lending to continue to grow across real estate finance and fund finance, to lead to further innovation in unlocking capital through specialty finance, and to fuel a new cycle of leveraged and acquisition finance. Partnerships between banks and alternative lenders are expected to deepen, driving further transaction volumes through Channel Islands structures.

Guernsey and Jersey remain well positioned to support the evolving needs of private credit market participants. The combination of regulatory stability, structuring flexibility, and professional expertise ensures continued relevance across the global private credit landscape.

Endnotes

1 Directive 2011/61/EU.

2 ESMA, Market Report on EU Alternative Investment Funds 2024, ESMA50-524821-3095. Available at: https://www.esma.europa.eu



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